

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF)
THE SANDY VALLEY WATER DISTRICT) CASE NO. 7977

O R D E R

Preface

On September 25, 1980, the Sandy Valley Water District ("Applicant") filed with the Public Service Commission, formerly the Utility Regulatory Commission, its duly verified application seeking approval of proposed adjustments to its existing rates for providing water service. Applicant stated that in an effort to meet its debt service requirements and provide for known increases in the cost of providing water service, it requested sufficient rates to produce an additional \$51,048, annually.

The case was set for hearing on December 17, 1980, and rescheduled to January 20, 1981, at 1:30 p.m., Eastern Standard Time, in the Commission's offices in Frankfort, Kentucky. All parties of interest were notified pursuant to the regulations of this Commission and applicable Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's office was permitted to intervene in this matter. At the hearing, certain requests for additional information were made by the Commission's staff. This information has been filed as a part of the record and the entire matter is now considered to be fully submitted for final determination

by the Commission.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the twelve-month period ending June 30, 1980, has been accepted as the test year. Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to actual operating revenues and expenses as reflected in its financial statements for the twelve months ended June 30, 1980. The Commission finds these adjustments allowable and has accepted them for rate-making purposes with the following exceptions:

1. Purchased Water

On April 1, 1980, Applicant's wholesale cost of water was increased by its supplier, the City of Pikeville, Kentucky, from \$.45 per thousand gallons to \$.60 per thousand gallons. The Commission considers the following computation allowable with respect to the pro forma cost of water: 153,673 M gallons purchased from the city during the test period x \$.60 (new rate) = \$92,203.80.

2. Maintenance of Distribution Reservoirs and Standpipes

The Commission, after completing a study of the detailed information furnished by the Applicant with regard to Account Number 650, Maintenance of Distribution Reservoirs and Standpipes, has

apportioned the total cost of \$29,259.84, which was included in operating expenses, into the following functional groupings:

Chargeable to maintenance expense	\$ 6,987.06
To be capitalized	6,993.02
Chargeable to extraordinary property losses	15,279.76
Total	<u>\$29,259.84</u>

3. Maintenance, Administrative and General Salaries

The Applicant has submitted detailed documentation with respect to the annual salaries of the maintenance foreman, secretary and the water district Commissioners. The document specifies that the two employees received salary increases during the latter half of the test period. However, the Applicant did not make an adjustment to annualize the salaries and the Commission has allowed an additional adjustment of \$1,467 per year to compensate for this omission.

4. Outside Services Employed

The Commission has concluded that the following analysis of Account Number 923, Outside Services Employed, which is based on information furnished by the Applicant, is allowable for rate-making purposes:

Chargeable to operating expenses	\$ 7,877.33
Chargeable to extraordinary property losses	3,205.50
Total	<u>\$11,082.83</u>

5. Property Insurance

Applicant's pro forma allowance pertaining to the cost of property insurance was reduced from \$4,104 to \$2,272. Premium payments were included in the adjustment which were related to insurance coverage beyond the test period.

6. Depreciation Expense

The Commission is of the opinion that an allowance for depreciation expense should be computed on the basis of original cost of utility plant in service less accumulated contributions in aid of construction. Therefore, the allowable depreciation expense adjustment of \$12,862 was computed by the Commission as follows:

Utility Plant in Service	\$1,467,707.60
Add: Capital items transferred from operating expense	6,993.02
Subtotal	<u>\$1,474,700.62</u>
Less: Contribution in aid of construction	895,347.56
	<u>\$ 579,353.06</u>
 \$579,353.06 x 2.22% (composite depreciation rate used by Applicant)=	
	\$ 12,861.64

7. Payroll Taxes

The Commission has re-computed payroll taxes based on the annualized salaries of the two utility employees of \$20,446.92, and has allowed an additional \$586 above the amount requested by the Applicant.

8. Extraordinary Property Losses

The Commission, after reviewing all facts concerning the costs associated with the relocation of a twelve-inch water main due to the construction of a railroad bridge, is of the opinion that this cost should be amortized over a five-year period. In this manner, the Applicant will be allowed to recoup the cost that it has incurred without unduly burdening the rate structure. The following items were erroneously included by the Applicant in the operating expense accounts: Outside Services Employed and Maintenance of Distribution Reservoirs and Standpipes. The Commission has accumulated these

costs and makes this adjustment for inclusion as a pro forma operating expense:

Polly and Trent, Inc. - Contractors	\$13,720.16
Rowe and Company - Engineering Fees	<u>4,765.10</u>
Total	<u>\$18,485.26</u>
Calculation of annual adjustment:	
\$18,485.26 ÷ 5 years =	\$ 3,697.05

Therefore, the Applicant's adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$194,069	\$ -0-	\$194,069
Operating Expenses	<u>185,259</u>	<u>23,863</u>	<u>161,396</u>
Net Operating Income (Loss)	\$ 8,810	\$23,863	\$ 32,673
Interest Income	8,229	-0-	8,229
Interest Expense	<u>22,693</u>	<u>-0-</u>	<u>22,693</u>
Net Income (Loss)	<u>\$ (5,654)</u>	<u>\$23,863</u>	<u>\$ 18,209</u>

OPERATING REVENUE INCREASE

The Commission finds that the Applicant is entitled to operating revenues equal to 1.2 times its annual debt service plus operating expenses including depreciation. Therefore, the increase in operating revenues is computed as follows:

Debt Service Coverage x 1.2	\$ 40,432
(Principal \$11,000 + Interest	
\$22,693 x 1.2)	
Add: Adjusted Operating Expenses	<u>161,396</u>
Subtotal	<u>\$201,828</u>
Less: Adjusted Water Sales	<u>191,876</u>
Interest Income	<u>8,229</u>
Increase in Gross Revenue	<u>\$ 1,729</u>

FINDINGS IN THIS MATTER

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that:

1. The rates prescribed and set forth in Appendix A, attached hereto and made a part hereof, should produce gross annual water revenues of approximately \$193,605 and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant on and after the date of this Order.

2. The Commission further concludes that gross annual operating revenues in the amount of \$195,798 are necessary and will permit the Applicant to meet its adjusted operating expenses and provide a 1.2 coverage of its annual debt service cost.

3. The rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

ORDERS IN THIS MATTER

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rates prescribed and set forth in Appendix A, attached hereto and made a part hereof, are hereby fixed as the fair, just and reasonable rates of the Sandy Valley Water District to become effective for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by the Applicant, insofar as they differ from those in Appendix A, be and the same are hereby denied.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within 30 days after the date of this Order,

its tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's Rules and Regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 15th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Did Not Participate
Vice Chairman

Don Hargis
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7977 DATED June 15, 1981

The following rates are prescribed for the customers in the area served by Sandy Valley Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES

5/8" Meter Service*

	<u>Monthly Rate</u>
First 2,000 Gallons	\$ 5.00 (Minimum Bill)
Next 3,000 Gallons	1.80 per 1,000 Gallons
Next 15,000 Gallons	1.60 per 1,000 Gallons
Next 30,000 Gallons	1.10 per 1,000 Gallons
Next 50,000 Gallons	.80 per 1,000 Gallons
Over 100,000 Gallons	.63 per 1,000 Gallons

3/4" Meter Service*

	<u>Monthly Rate</u>
First 3,000 Gallons	\$ 6.80 (Minimum Bill)
Next 2,000 Gallons	1.80 per 1,000 Gallons
Next 15,000 Gallons	1.60 per 1,000 Gallons
Next 30,000 Gallons	1.10 per 1,000 Gallons
Next 50,000 Gallons	.80 per 1,000 Gallons
Over 100,000 Gallons	.63 per 1,000 Gallons

1" Meter Service*

	<u>Monthly Rate</u>
First 5,000 Gallons	\$ 10.40 (Minimum Bill)
Next 15,000 Gallons	1.60 per 1,000 Gallons
Next 30,000 Gallons	1.10 per 1,000 Gallons
Next 50,000 Gallons	.80 per 1,000 Gallons
Over 100,000 Gallons	.63 per 1,000 Gallons

*Meters shall be read and customers shall be billed to the closest 100 gallons of usage.

Rate (Continued)

1½" Meter Service*

Monthly Rate

First 10,000 Gallons
Next 10,000 Gallons
Next 30,000 Gallons
Next 50,000 Gallons
Over 100,000 Gallons

\$ 18.40 (Minimum Bill)
1.60 per 1,000 Gallons
1.10 per 1,000 Gallons
.80 per 1,000 Gallons
.63 per 1,000 Gallons

2" Meter Service*

Monthly Rate

First 25,000 Gallons
Next 25,000 Gallons
Next 50,000 Gallons
Over 100,000 Gallons

\$ 39.90 (Minimum Bill)
1.10 per 1,000 Gallons
.80 per 1,000 Gallons
.63 per 1,000 Gallons

3" Meter Service*

First 60,000 Gallons
Next 40,000 Gallons
Over 100,000 Gallons

\$ 75.00 (Minimum Bill)
.80 per 1,000 Gallons
.63 per 1,000 Gallons

4" Meter Service*

Monthly Rate

First 100,000 Gallons
Over 100,000 Gallons

\$ 100.00 (Minimum Bill)
.63 per 1,000 Gallons

6" Meter Service*

Monthly Rate

First 300,000 Gallons
Over 300,000 Gallons

\$ 200.00 (Minimum Bill)
.63 per 1,000 Gallons

Wholesale Water Service*

Monthly Rate

All Usage

\$.63 per 1,000 Gallons

*Meters shall be read and customers shall be billed to the closest 100 gallons of usage.